

Build UK State of Trade Survey

Q3 2016

Executive Summary

Results of the third State of Trade survey for 2016 show that whilst Build UK members' workloads rose following the EU referendum, they are facing increasing difficulties in recruiting skilled operatives which is impacting business performance and costs.

The survey, which was undertaken with Glenigan, reveals that whilst output from Build UK members increased modestly during the third quarter of 2016, there was a decline in enquiries. Nevertheless whilst contractors anticipate that overall workloads will lighten during the final quarter of 2016, output is still expected to rise over the next 12 months.

Labour shortages prevented a quarter of contractors (25%) from bidding for work during the third quarter of 2016, a figure which has risen from 16% in Q2. This was also reflected in the tightening of industry capacity, with 85% of contractors operating at over 75% of their capacity and 49% operating at over 90%.

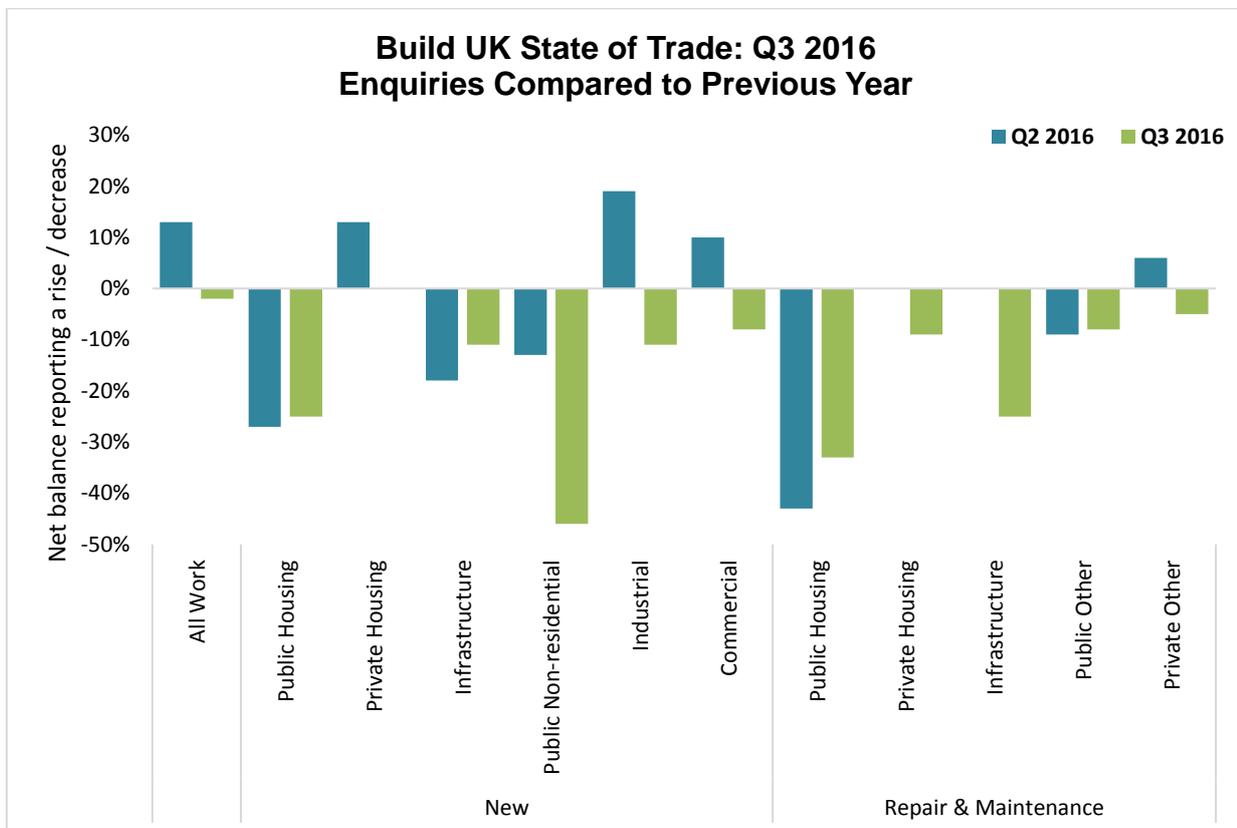
These difficulties are increasingly reflected in the cost of labour, with 55% reporting an increase in labour costs compared to the previous quarter and 60% reporting their labour costs as higher than a year ago. According to the Q3 results, the trades proving the most difficult for contractors to recruit are professional/technical staff and supervisors, brick layers and carpenters. The main reasons stated for difficulty in filling vacancies include a lack required skills (47%), a low number of applicants with the required experience (44%) and a lack of qualifications (27%).

With regard to payment, 46% of contractors reported waiting at least 46 days on average despite only 16% having average contract terms of 46 days or more.

Enquiries

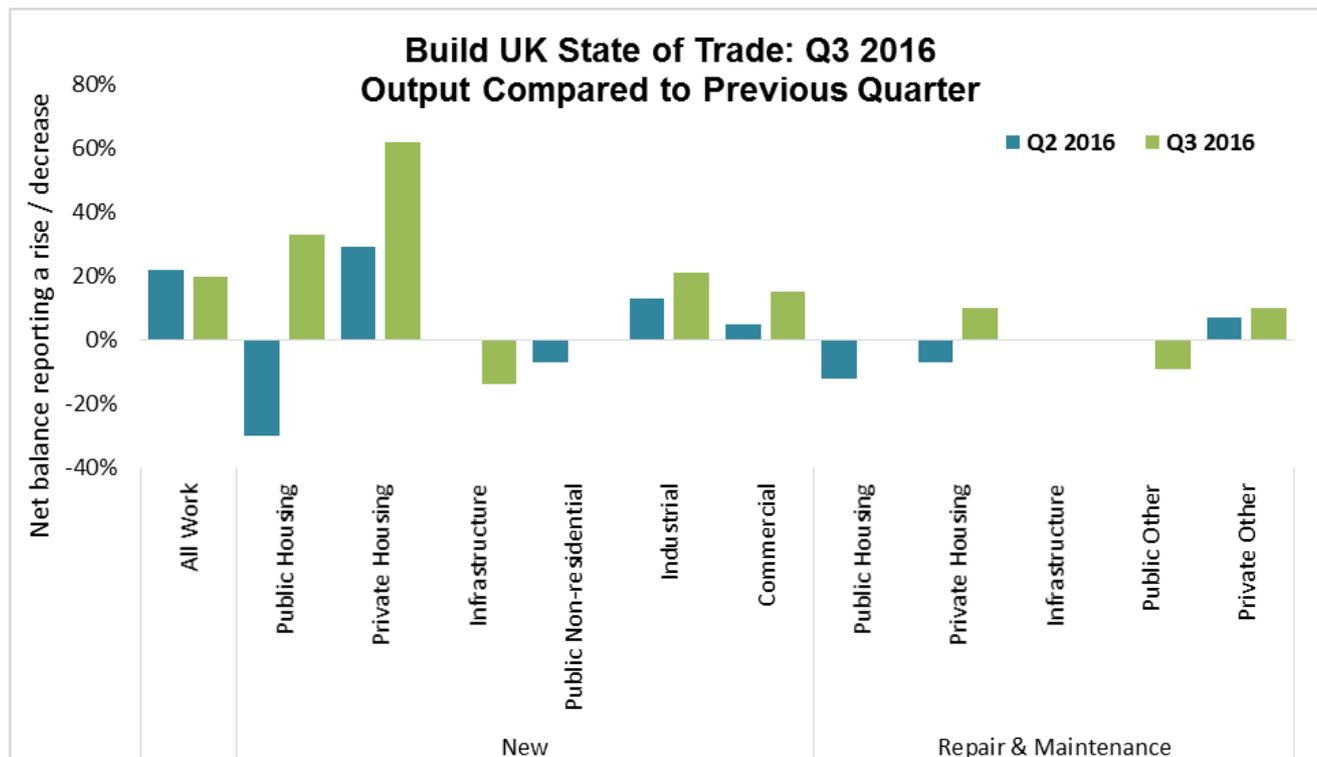
Contractors reported little change in overall enquiries levels during the third quarter of 2016 against the previous three months, with 24% of contractors reporting an increase in enquires and 26% reporting a decline. A large proportion of contractors reported declines in public sector, industrial and commercial sector enquires. However, an increase in private housing enquiries helped limit the net balance of contractors reporting a decline in overall enquiries to just 2%.

There was also little change in enquiry levels compared to a year earlier; 23% of contractors reported an increase against 25% recording a decline, giving a net balance of -2%. The year-on-year dip in overall enquires was driven by a marked weakening in public non-housing and social housing enquiries. Declines in commercial, industrial, and infrastructure enquiries were also reported as net balances of -11%, -11% and -8% respectively by contractors. There was no growth reported in the private new housing sector compared to the last quarter.



Output

A third of contractors reported an increase in output compared to the previous quarter. This compares with 13% recording a decline, giving a balance of 20 points. This is similar to the net balance of 22 reported in the previous survey. New build private housing was reported to be the strongest growing sector with 62% of contractors reporting an increase in output. New build public housing, industrial and commercial sectors also performed well with 33%, 21% and 15% of contractors reporting workload increases in these sectors respectively.



20% of contractors also reported that third quarter output was up on a year ago with new private housing and industrial sectors experiencing the strongest year-on-year growth, with 29% and 28% of contractors reporting a rise in their workloads respectively.

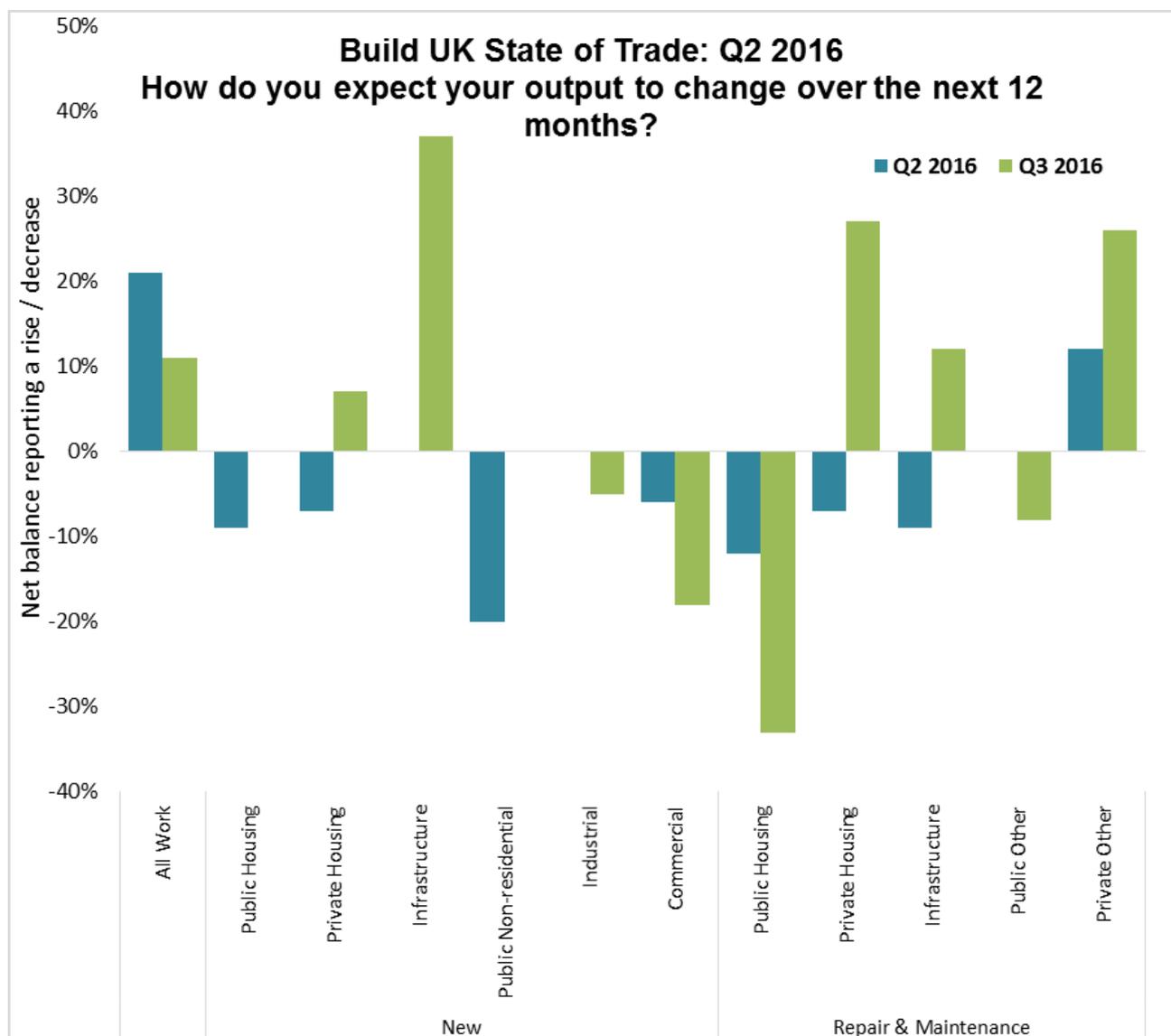
Work in Hand

Two thirds (67%) of contractors regard their current levels of work in hand as normal. 19% of contractors currently have higher than normal levels and 14% currently have lower than normal levels, giving a resultant balance of 5 points.

Anticipated Workload

5% of contractors expect workloads to fall in Q4 compared to Q3. The new build infrastructure, industrial and commercial sectors are anticipated to be particular areas of weakness, with 33%, 21% and 27% of contractors anticipating a reduction in their volume of work in these sectors respectively. A decrease is also anticipated in the repair and maintenance (R&M) sectors; contractors are especially cautious about prospects for the public housing R&M sector, with 50% of firms expecting their volume of work to decline.

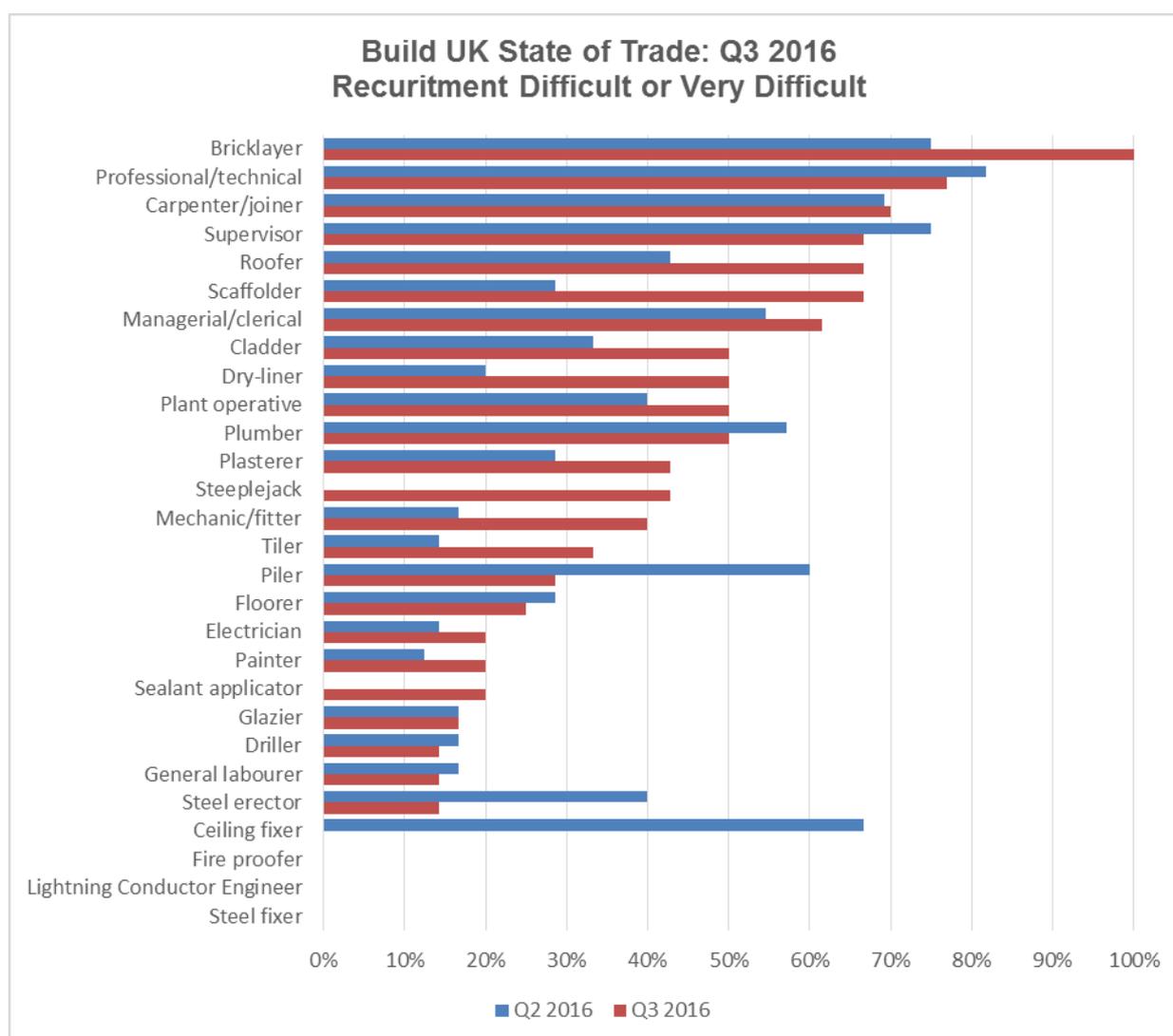
In contrast, contractors remain positive about their overall workload during the next 12 months. 33% of contractors expect workloads to rise during the next 12 months, while 22% expect work volumes to decline. The resultant balance of 11 points, which is down from 21% of contractors in the previous report, points to continued modest growth into 2017, led by a strengthening in private housing and infrastructure work.



Recruitment

Labour availability has become increasingly problematic during the third quarter; 23% of contractors reported that the recruitment of skilled labour had been more difficult than the previous quarter while no contractors reported that it had become easier. Recruitment remained difficult across a range of trades. The availability of bricklayers was especially problematic, with all contractors reporting that recruitment was either ‘difficult’ or ‘very difficult’. Recruitment of professional/technical employees has been a cause for concern in the previous three surveys and remained so in Q3, with 77% of firms identifying recruitment as either ‘difficult’ or ‘very difficult’. 70% of firms reported that carpenters/ joiners were ‘difficult’ or ‘very difficult’ to recruit, while a third (67%) reported similar problems recruiting supervisors, roofers and scaffolders.

In contrast, the availability of pilers, steel erectors and ceiling fixers appears to have improved during Q3 2016, with far fewer contractors reporting that recruitment was ‘difficult’ or ‘very difficult’ compared to the previous survey.



Recruitment difficulties are affecting contractors’ business performance; 20% of firms reported that labour shortages had resulted in the late completion of work compared to 18% in the previous quarter. Labour shortages has also prevented a quarter of contractors from bidding for work during the third quarter of 2016, up from 16% in last quarter’s survey.

Capacity, Costs and Prices

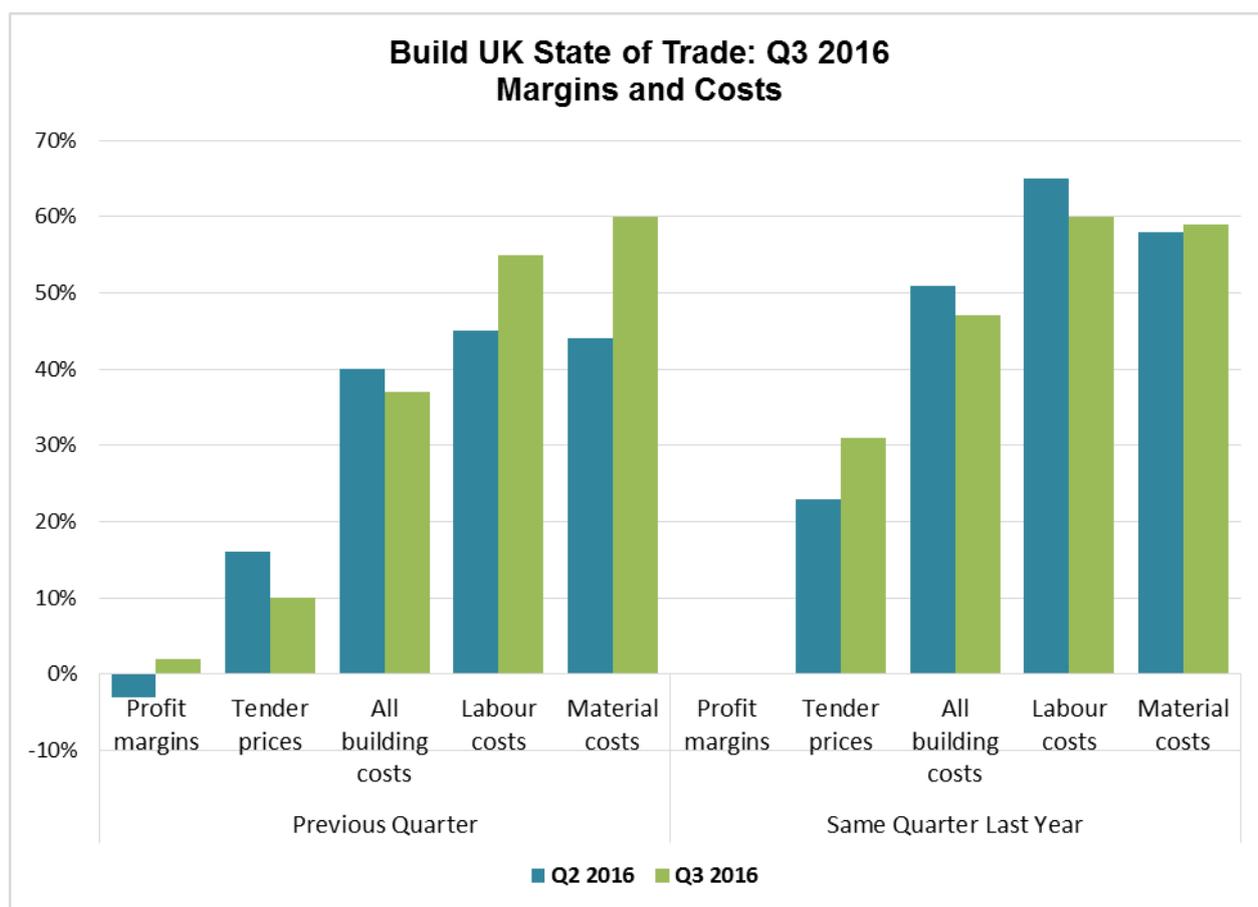
85% of firms reported that they were operating at least 76% of their capacity during the latest quarter, with 49% of respondents operating at over 90% of capacity. Over the 12 months prior to September 2016, 79% of firms were operating at least 76% of their capacity and 55% were operating at over 90% capacity.

On balance, contractors' profit margins improved slightly during the quarter, countering the narrowing in margins reported during the second quarter. Compared to Q3, 20% saw margins rise compared to 18% who saw them fall. Overall profit margins during the second quarter were unchanged on a year ago, with 28% of firms reporting an increase in margins offset by a similar proportion reporting tighter margins.

Contractors reported a rise in tender prices during the third quarter. 10% of contractors reported a rise compared to the previous quarter and 31% had seen a rise relative to last year.

Over the last quarter, 55% of contractors judged that labour costs had risen, 60% reported higher material costs and 37% reported a rise in all building costs.

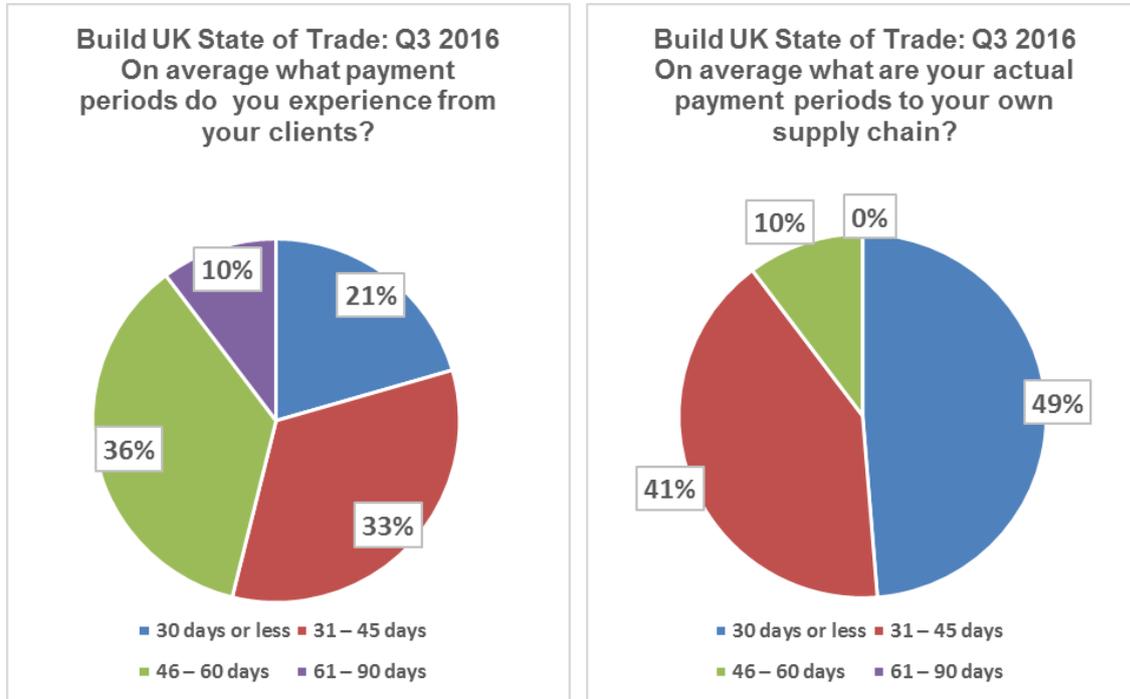
Over half (55%) of contractors reported that their overall building costs had risen over the last 12 months. Labour costs were judged to have risen by 65% of respondents; similarly 64% of firms have seen their material costs rise over the last year.



Where contractors had experienced difficulties in recruiting staff, firms cited lack of skills and lack of experience in 47% and 44% of cases respectively. Lack of qualifications was cited as a factor in 27% of cases.

Payments and Disputes

36% of contractors were waiting between 46 and 60 days on average to receive payments from their clients, and 10% waited between 61 and 90 days. This is despite only 16% having average contract terms which include payment periods of 46 days or more.



21% of contractors reported that on average they receive payment within 30 days; this compares to 18% during the second quarter of 2016. A third (33%) confirm they usually receive payment within 31 and 45 days, compared to 47% of firms in the previous survey.

Almost a third (32%) of contractors had been involved in a contract dispute during the third quarter of 2016. The most common cause of disputes was payment (45%), with other causes, including quality & workmanship, delays, errors in design and site conditions, each accounting for 9%.

